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UNCLAS SECTION 01 OF 05 BRASILIA 001245

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USDOC FOR 3134/USFCS/OIO/WH/SHUPKA
USDOC FOR 4332/ITA/MAC/WH/OLAC/JANDERSEN/ADRISCOLL/MWAR D
STATE PASS OPIC FOR MORONESE, RIVERA, MERVENNE
STATE PASS EXIM FOR NATALIE WEISS, COCONNER
STATE PASS USTDA FOR AMCKINNEY
TREASURY FOR OASIA:DDOUGLASS
AID/W FOR LAC/AA

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SUBJECT: COMMERCE SECRETARY GUTIERREZ MEETS WITH PRIVATE SECTOR
DELEGATIONS - RIO DE JANEIRO AND SAO PAULO, BRAZIL

¶1. (SBU) Summary. During Secretary Gutierrez's June 4 - 8 policy visit to Brazil, the Secretary and his team - OPIC President Robert Mosbacher Jr., USDOC A/S David Bohigian, State DAS Patrick Duddy, US Patent and Trademark Office Deputy Director Steve Pinkos, Charge Phil Chicola, TDA, Western Hemisphere Regional Director, Al Angulo, Senior Commercial Officer John Harris, and DOC OLAC Director John Andersen - met with representatives of a number of private sector institutions, including the AACLA Executive Board and National Presidents, the Brazil-U.S. Business Council, the Peru/Colombia AMCHAM and Presidents of FIESP, CIESP, and the Sao Paulo AMCHAM. The first two meetings focused on private sector priorities for the hemisphere and the soon to be launched U.S.-Brazil Informal Commercial Dialogue. The Peru/Colombia AMCHAM meeting focused on the situation in Peru, the recent Peruvian presidential election and next steps that both Peru and Colombia planned to take in light of the FTA negotiations with the United States. During the FIESP, CIESP, and the Sao Paulo AMCHAM, the Secretary focused on the opening the Commercial Dialogue and follow-up to that event to ensure that the launch would be followed by meaningful agreements to boost U.S.-Brazilian commercial relations in each of the areas dealt with in the Dialogue.

¶2. (SBU) During the latter discussion, Brazil's Ambassador to the U.S. Abdenur noted that Brazil was awaiting a response from a letter it had sent to the incoming USTR Schwab dealing with the FTAA and noted Brazil's continued interest in moving forward on 4 plus 1 discussions with the United States. The Secretary promised to

follow-up on the former issue and reiterated the long-standing U.S. position on the latter. End Summary

AACLA Executive Board and National Presidents

13. (SBU) In a friendly discussion, the Secretary noted that a number of commentators are focused on the negative trends in the hemisphere, especially the emergence of a new breed of leftist leaders. The Secretary noted that despite the emergence of a few outliers, most leaders in the hemisphere were committed to sound economics and improving commerce. He stressed the role of the private sector in this processes, noting that they were the answer to ensuring the overall competitiveness of the hemisphere and for improving economic and social conditions in each of their countries. The Secretary described the Department's goals in the soon to be launched U.S.-Brazil Commercial Dialogue, particularly its role in improving commerce between the two nations. He stated that the U.S.-Brazil commercial relationship, although strong, could be much improved given the fact that we trade less on a per capita basis with Brazil than we do with many of its neighbors. He further noted that we all had to do a better job of advertising the fact that the private sector was not part of the problem, but was in fact, the only solution.

14. (SBU) AACLAA members agreed with the overall thrust of the Secretary's message on recent trends, noting that early returns from

SIPDIS

Peru indicating a Garcia victory were another positive development. Several voiced concern with the implementation phase of recently completed FTAs, indicating that the USG needed to do more to ensure that the FTAs were indeed trade creating. The Secretary agreed, stating that he had led a mission to Central America last October to

BRASILIA 00001245 002 OF 005

highlight the opportunities arising from the CAFTA-DR agreement. OPIC President Mosbacher stated that he had just come from a series of meetings in Central America where OPIC had signed agreements in excess of \$100 million in new investment. The Secretary also noted, when queried about the Panama FTA, that he was mystified at the seeming inability of Panama to conclude the negotiations, as the potential in his view for both nations, and especially Panama was immense. Finally, the Secretary asked AACLAA members for their assistance in a joint ITA-AACLAA project to produce a series of fact sheets by country, which will include data demonstrating the positive impact that the USG and U.S. companies have on the economic prosperity of countries in the region.

U.S.-Brazil Business Council

15. (SBU) Mark Smith, Executive VP of the U.S. Section of the Council served as moderator. (Minister Luiz Furlan was a last minute scratch due to a last minute professional commitment.) Council reps noted that they had three priorities. First, under the Commercial Dialogue's Business Facilitation work group, they hoped that the primary outcome would result in changes to a number of Brazilian Customs' practices that impeded both imports and exports. Second, that the Secretary's visit would give impetus to the conclusion of a U.S.-Brazil Bilateral Tax Treaty. And third that the U.S. and Brazil could find a way to cooperate on biofuels, especially ethanol, for the good of both countries. Selected Council representatives provided additional details on each of these priorities. For example, UPS, FEDEX, GM reps reiterated their hope to invite Ministry of Development, Industry and Trade officials, along with representatives from Recita Federal to their facilities in the U.S. during September to gauge first hand how U.S. businesses were able to work with U.S. Custom's officials to expedite business shipments.

16. (SBU) Secretary Gutierrez outlined the Department's Commercial Dialogue goals, stressing the need for real substance in the business facilitation work group particularly with respect to

Custom's issues. He noted that as a first step, we planned to invite MDIC officials and their Recita Federal colleagues to visit U.S. facilities in the U.S. in an effort to make them better aware of best practices. The Secretary promised to raise the bilateral tax treaty issue with his Brazilian counterparts and noted that DOC officials would follow-up with U.S. Treasury personnel at the end of the trip. Finally, on biofuels, the Secretary noted that President Bush has stressed the need to promote greater energy independence through the use of renewable energy sources like biodiesel and ethanol, and that the Secretary would discuss this issue with Secretary of Energy Bodman upon returning to Washington. He also

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stated that the issue would likely come up in all of his bilateral meetings and that the working group on standards included a proposal to work on developing common standards for biofuels as one of its objectives.

Peru/Colombia AMCHAMS

¶7. (SBU) Peru Senior Commercial Officer Margaret Hanson-Muse,

BRASILIA 00001245 003 OF 005

accompanied by representatives of the Peru and Colombian AMCHAMs met briefly with the Secretary and his team to discuss the recent election in Peru, Peruvian plans to move forward on ratifying the FTA and likely next steps concerning the U.S.-Colombia FTA. SCO Hanson-Muse provided a detailed political and economic overview of Peru, beginning with news that Alan Garcia had indeed prevailed in Sunday's Peruvian presidential election. The AMCHAM noted that Garcia was a supporter of the FTA, but would have to rely on a coalition government to govern. As a consequence, the current Toledo Administration was intent on gaining Congressional ratification of the agreement within Peru before it leaves office. AMCHAM reps asked the Secretary to use his influence to place the Peruvian FTA before the U.S. Congress prior to its August recess. The Secretary agreed to carry this message back to Washington. The lone Colombian AMCHAM representative noted that there were still issues impeding progress on that agreement, but that they hoped the Colombian government would make sufficient progress during President Uribe's upcoming visit to the U.S. to quickly settle outstanding issues.

FIESP, CIESP, and the Sao Paulo AMCHAM

¶8. (SBU) The AMCHAM was represented by Fernando Tigre, Vice Chairman of the Board of the Amcham, Antonio Pargana, CISA Trading, ¶9. Peter Dam, Colgate-Palmolive, Mario Grecco, Brystol-Myers Squibb, and Charles Wortman, JP Morgan. CIESP (Center of Industries of Sao Paulo - Centro das Industrias do Estado de Sao Paulo) was represented by Claudio Vaz, President, Humberto Barbato, Managing Director, Luis Carlos Galvao, Juridical Director and Marco Aurelio ¶A. Rodrigues, Director. FIESP (Federation of Industries of the State of Sao Paulo - Federagco das Industrias do Estado de Sao Paulo) was represented by Roberto Giannetti da Fonseca, International Business Director. Brazil's Ambassador to the U.S. Abdenur was also in attendance.

¶9. (SBU) The Secretary began the discussion with a brief description of the Commercial Dialogue, followed by his analysis of the overall U.S.-Brazil commercial relationship. He noted that although it is positive, and the U.S. is pleased to be both Brazil's single largest trading partner and single largest investor, that it could be better. He reiterated a comment made throughout the trip, that the U.S. actually traded more on a per capita basis with many of Brazil's neighbors. He concluded by noting that this was a time for the two of us, as well as other nations within the hemisphere to pull together, and to increase both our commercial ties and regional competitiveness to compete better with the rest of the world. The Secretary reminded the representatives that the reality of today's

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world was that with the emergence of the People's Republic of China and India there were not only 2.3 billion new customers, but also 2.3 billion new competitors. And, he stated, that unless we worked together to increase our ties and improve our competitiveness we, and especially the nations of South America, would find it increasingly difficult to compete in this new commercial reality.

¶10. (SBU) The AMCHAM opened the discussion, with a series of issues that it felt needed to be addressed by both Brazil and the U.S. These included the need for more efficient and modern Customs at Brazil's major ports of entry and progress by both country's on

BRASILIA 00001245 004 OF 005

improving business VISAs. The AMCHAM noted that graduating Brazil from the Special 301 Priority Watch List would send a positive signal of the important relationship between our nations. Referring to the recent extension of GSP benefits, they stated that GSP for Brazil covered 3300 products, valued at \$4.3 billion in exports and was supported by a host of major U.S. companies and associations. The AMCHAM also stated that removing the 54-cent per gallon U.S. surcharge on ethanol would be another important symbol for U.S.-Brazil relations. This also would boost investment in Brazil and had the support of many U.S. firms. And finally, the AMCHAM supported cooperation between the U.S. Patent and Trademark Office and INPI. For its part, CIESP agreed wholeheartedly with the AMCHAM's remarks and added three additional concerns - the need for greater U.S. investment, agreement on a bilateral tax treaty and the hope for a continued strong U.S. economy. FIESP reiterated a number of the same concerns, but added that they had agribusiness issues, including beef, poultry and tobacco that they hoped would be addressed.

¶11. (SBU) The Secretary noted that business VISAs were affected by tighter requirements promulgated in the U.S. following September 11, but reminded the groups that the U.S. only had 4 offices in country trying to deal with both tourist and business VISAs and that business VISAs had priority. He welcomed any ideas the AMCHAM had to expedite the process. On GSP, the Secretary stated that Congress is undertaking an evaluation of the program. He noted that one of the questions they would have to consider was whether the conditions were still right for all countries for GSP eligibility, given the fact that the program was designed to serve as a bridge to move developing toward developed status. The Secretary noted that this would be done in a thoughtful, straightforward manner. On ethanol, the Secretary agreed that, following the President's State of the Union message, there was need to look at all alternatives. He also agreed that the U.S. and Brazil needed to look at further cooperation, and mentioned standards was one area where we had agreed to cooperate. He noted that biofuels in general promised a long-term solution to our common energy problems. The Secretary promised to talk with Treasury regarding the prospects for a bilateral tax treaty and urged Brazilian officials to do likewise. The Secretary also promised to follow-up on FIESP's agriculture requests, but noted that the best way forward was to conclude an ambitious Doha Agreement and look for ways where we could better integrate in the Americas. In conclusion, the Secretary reviewed the facts of the U.S. economy, emphasizing especially the 12 consecutive quarters of U.S. GDP growth and the lowest unemployment in 4 decades.

¶12. (SBU) At this point ambassador Abdenur reiterated Brazil's concerns with GSP, stating that he would do his best to bring this issue to congress' attention. He also expressed concerns that the recent FTAs that the U.S. had negotiated meant that Brazil would be losing ground in the U.S. relative to its competitors. The Ambassador reiterated Brazil's call for four plus one negotiations, stating that they would ensure market access for goods in services in both the U.S. and Mercosul markets. He noted that the U.S. had signed FTAs with norms and disciplines that "Brazil and Mercosul can never accept." The Ambassador noted that as co-chair of the FTAA, Brazil had renewed its commitments to the FTAA and looked forward to the timely resumption of that dialogue. He complained that U.S. had yet to respond to Brazil's letter to then USTR-designate Susan

BRASILIA 00001245 005 OF 005

Schwab requesting a meeting to discuss how the U.S. and Brazil could move the FTAA forward. The Secretary noted that he would look into this issue, but reminded those present of the commitment taken in the Mar del Plata agreement where 29 of 34 countries stated their goal of concluding the FTAA as soon as possible.

¶13. (Note: Brazil's FTAA lead, Amb. Eduardo Felicio, did indeed dispatch a letter to Amb. Schwab proposing a Co-Chair letter be sent announcing themselves as the new Co-Chairs. However, Amb. Schwab responded to Felicio and raised two other issues as well: i.e., the Secretariat's future and the need to send another letter to FTAA

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countries providing a readout of the Co-Chair meeting. USTR has not heard back to Amb. Schwab's letter. End Note.)

¶14. (U) This cable was cleared by the Gutierrez delegation prior to transmission.

Chicola